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In the Supreme Court of the United States

OCTOBER TERM, 1968

No. 504

FARBENFABRIKEN BAYER A.G., APPELLANT

v.

UNITED STATES OF AMERICA

No. 505

FARBENFABRIKEN A.G., PETITIONER

v.

UNITED STATES OF AMERICA

No. 838 Misc.

FARBENFABRIKEN BAYER A.G., PETITIONER

v.

UNITED STATES OF AMERICA

No. 839 Misc.

FARBENFABRIKEN BAYER A.G., PETITIONER

v.

UNITED STATES OF AMERICA

ON VARIOUS MOTIONS AND PETITIONS TO THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA AND THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

MEMORANDUM FOR THE UNITED STATES IN OPPOSITION AND MOTION TO DISMISS IN NO. 504

These are four related cases in which, by various methods, review is sought of the district court's order

denying a motion to dismiss a civil antitrust suit against a foreign corporation, and of the court of appeals' order denying leave for an interlocutory appeal therefrom.

Petitioner-appellant Farbenfabriken Bayer A.G. ("Bayer") is a West German corporation which holds a United States patent (the "Bayer patent") on a chemical compound called diethyl, used in the manufacture of certain agricultural products, such as insecticides (Pet. in No. 838 Misc., pp. 6–7). Bayer's wholly-owned subsidiary, Chemagro Corporation ("Chemagro"), a New York corporation, holds an exclusive license under the Bayer patent to make, use and sell diethyl in the United States (*ibid.*)[1] Chemagro manufactures diethyl at its plant in Kansas City, Missouri (Complaint, para. 9),[2] and is alleged to have entered into more than 100 contracts with American firms under which it sells diethyl to them and licenses them to use it (Complaint, para. 10–11). It is alleged that these sublicense agreements limit the purchaser from reselling diethyl except after further processing and permit the purchaser to sell the finished product only for restricted purposes and to restricted classes of customers (Complaint, para. 11–18).

On March 7, 1968, the United States filed a civil antitrust suit against Bayer and Chemagro in the United States District Court for the District of Columbia. The complaint charged that the limitations

[1] All of the voting stock of Chemagro is owned by Bayer Foreign Investments, Ltd., a wholly-owned Canadian subsidiary of Bayer. Complaint, para. 4.

[2] The complaint is set out as an appendix to this memorandum, *infra*, pp. 11–18.

imposed upon purchasers' use and sale of diethyl constituted unreasonable restraints of trade in violation of Section 1 of the Sherman Act, and that Bayer had combined with Chemagro and had participated in the violation. The complaint requested, *inter alia*, that the defendants be enjoined "from maintaining * * * any restriction on the use to which diethyl purchased from defendants, or from any licensee under the Bayer patent, may be put, and to whom, for what purpose, or where diethyl-containing products may be sold or used" (*infra*, pp. 17–18).

Bayer was served pursuant to Section 293 of the Patent Code, 35 U.S.C. 293. That provision authorizes non-resident patentees to designate a resident agent for receipt of process in "proceedings affecting the patent or rights thereunder," and provides that, in the absence of such a designation, "the United States District Court for the District of Columbia shall have jurisdiction and summons shall be served by publication or otherwise as the court directs." Bayer had designated no agent to receive process with respect to its diethyl patent (Complaint, para. 2) and accordingly was served by certified mail at its offices in West Germany (Pet. in No. 838 Misc., p. 8). See Fed. R. Civ. P. 4(i). Chemagro was then served pursuant to Section 5 of the Sherman Act, 15 U.S.C. 5.[3]

The defendants moved to dismiss the action as to Bayer on the ground that the service effected under

[3] That section empowers the court before which any proceeding under the Sherman Act may be pending to summon other parties "whether they reside in the district in which the court is held or not."

Section 293 was invalid. The district court denied the motion, holding that "this action is one 'affecting the patent or rights thereunder' within the meaning of 35 U.S.C. § 293" (Pet. in No. 838 Misc., p. A1). At defendants' request, the district court entered an amended order stating "that, in accordance with 28 U.S.C. § 1292(b), it is the opinion of the Court that the denial of the motion to dismiss involves a controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate termination of this litigation" (Pet. in No. 838 Misc., p. A4). Bayer then applied to the court of appeals under 28 U.S.C. 1292(b) for leave to appeal from the district court's order denying the motion to dismiss. The court of appeals denied the application (Pet. in No. 505, pp. A5–A6).

Bayer seeks review in this Court of the orders of both the district court and the court of appeals. No. 504 is a direct appeal from the district court under Section 2 of the Expediting Act, 15 U.S.C. 29. No. 505 seeks review of the judgment of the court of appeals by writ of certiorari under 28 U.S.C. 1254(1). And in Nos. 838 Misc. and 839 Misc., Bayer requests this Court to review the orders below by common law writ of certiorari under the All Writs Act, 28 U.S.C. 1651(a).

1. In civil antitrust suits brought by the United States, the Expediting Act permits a direct appeal to this Court only from "the final judgment of the district court" (15 U.S.C. 29). The order of the district court denying Bayer's motion to dismiss is plainly not

a "final judgment" within the meaning of the Act. It did not dispose of any aspect of the merits of the government's complaint; it did not determine whether defendants had violated the Sherman Act or pass upon any prayer for relief. Compare *Brown Shoe Co.* v. *United States,* 370 U.S. 294, 308, with *National Ass'n of Real Estate Boards* v. *United States,* 176 F. 2d 631 (C.A.D.C.). The order did no more than permit the action to proceed with Bayer as a defendant and was thus interlocutory, not final. Accordingly, this Court has no jurisdiction to entertain the appeal in No. 504.

2. This Court has consistently held that the Expediting Act precludes appeal to the courts of appeals from interlocutory orders in government antitrust cases. *United States* v. *California Cooperative Canneries,* 279 U.S. 553, 558; see *Brown Shoe Co., supra,* 370 U.S. at 305, n. 9. Relying upon these decisions, the court of appeals declined to entertain Bayer's interlocutory appeal from the district court's order. Bayer contends that this established rule of practice was changed by 28 U.S.C. 1292(b), which authorizes the courts of appeals in their discretion to permit appeals from interlocutory orders certified by the district court for that purpose. That provision was enacted, however, in 1958—several years prior to this Court's reiteration in *Brown Shoe Co., supra,* that interlocutory appeals to the courts of appeals are precluded in government antitrust cases.[4]

Moreover, the legislative history of Section 1292(b) shows that it was intended to apply to cases in which

[4] Section 1292 was cited in the *Brown Shoe* opinion (370 U.S. at 306, n. 12).

any appeal from the final judgment would be to the courts of appeals, and not to government civil antitrust cases, in which the final judgments are appealable only to this Court. In furnishing an illustration of the contemplated applicability of Section 1292(b) in antitrust cases, the Senate Report on the bill stated (S. Rep. No. 2434, 85th Cong., 2d Sess. 3):

> * * * [I]n an antitrust action a plea may be entered that the claim is barred by the statute of limitations. If this motion is denied, under existing law the matter is not appealable and the case then goes forward to trial. Disposition of antitrust cases may take considerable time, yet upon appeal following final disposition of such cases, the court of appeals may well determine that the statute of limitations had run and for that reason the district court did not have jurisdiction.

Congress was there obviously referring to private antitrust suits, since appeals "following final disposition" of government antitrust suits are not taken to "the court of appeals" but directly to this Court. Nothing in the legislative history of Section 1292(b) suggests that it was designed to amend the Expediting Act by authorizing appeals from interlocutory orders in civil antitrust suits brought by the government.

The court of appeals correctly declined to entertain Bayer's interlocutory appeal from the district court's order.

3. This Court and the lower federal courts are empowered by 28 U.S.C. 1651(a) to "issue all writs necessary or appropriate in aid of their respective jurisdictions and agreeable to the usages and principles of

law." The issuance by this Court of a common law writ of certiorari under Section 1651(a) "is not a matter of right but of sound discretion sparingly exercised." Rule 30 of the Rules of this Court. This Court has granted review under Section 1651(a) of interlocutory orders in government antitrust cases only where it believed that compelling circumstances warranted such action, *e.g.,* to determine whether a judicial proceeding conflicted with the jurisdiction conferred by Congress upon a regulatory agency, *U.S. Alkali Export Assn.* v. *United States,* 325 U.S. 196; *Far East Conference* v. *United States,* 342 U.S. 570, or whether the district court had no power to issue an unusual preliminary order which would cause injury that could not subsequently be redressed, *De Beers Mines* v. *United States,* 325 U.S. 212. Such considerations do not obtain here (see *U.S. Alkali Export Assn., supra,* at 202–203).

Moreover, the decision of the district court is correct.

a. Section 293 was first enacted in 1952 as part of a general revision and codification of the patent laws. It provides a means for service of process upon nonresident patentees in "proceedings affecting the patent or rights thereunder." It is petitioner's contention that the section may not be invoked to effect service of process in antitrust suits charging unlawful business practices in exploitation of the patent, but "is applicable only to actions under the patent laws—those for declaratory judgments for infringement or invalidity" (Pet. in No. 838 Misc., p. 14).

It may be true, as petitioner urges (*id.* at 13), that

a principal purpose of Section 293 was to enable American residents to sue non-resident patentees for declarations of non-infringement or invalidity. But that provision is not limited to such actions; it applies broadly to "proceedings affecting the patent or rights thereunder." When Congress in the 1952 codification of the patent laws wished to refer to actions arising under those laws, it did so specifically. For example, 35 U.S.C. 282 enumerates the defenses available "in any action involving the validity or infringement of a patent"; 35 U.S.C. 290 requires that notice be given to the Commissioner of Patents of the filing of any "action under this title." No such limitations were imposed by Congress upon the use of Section 293.[5]

b. The present action is well described by the language of Section 293 as a "proceeding affecting the patent or rights thereunder." Bayer's patent on

[5] The suggestion of the district court in *North Branch Products, Inc.* v. *Fisher*, 179 F. Supp. 843 (D.D.C.), reversed on other grounds, 284 F. 2d 611 (C.A.D.C.), certiorari denied, 365 U.S. 827, that Section 293 "should be construed as being limited to actions under the patent laws" (179 F. Supp. at 845) deserves little weight. The statement was dictum, since the court determined that the defendant had submitted to the jurisdiction of the court by asking for affirmative relief on a counterclaim. Moreover, while the court observed that the section is found in the patent laws, it took no note of the specific terminology used by Congress in other provisions thereof, nor did it otherwise indicate that there had been a congressional intent to confine Section 293 to patent cases. Finally, the court's view was prompted by concern that, unless so limited, the section might be invoked in cases over which the federal courts lacked subject matter jurisdiction; no such problem is presented here, since the district court's jurisdiction in cases arising under the antitrust laws is plain.

diethyl constitutes a "grant * * * of the right to exclude others from making, using or selling the invention throughout the United States," 35 U.S.C. 154; the patent has "the attributes of personal property," and the patentee "may * * * convey an exclusive right under his * * * patents" to others, 35 U.S.C. 261. While this suit does not challenge the Bayer patent or Bayer's license to Chemagro, it does attack the terms upon which the rights derived from the patent were exercised. If the sub-licenses challenged here had been issued by Bayer itself, it would be manifest that Section 293 applies. The fact that Bayer's subsidiary, Chemagro, was the contracting party should make no difference, because Section 293 turns on the nature and effect of the proceeding rather than on the identity of parties to the license agreement.

The outer limits of the scope of Section 293 need not be considered here, *e.g.*, whether the section may be invoked to assess a tax liability "merely because the income * * * involved derives from a patent" (Pet. in No. 838 Misc., p. 14). In this case, the nexus between "the patent or rights thereunder" and the antitrust violation charged in the complaint is clear and direct. Section 293 was thus properly invoked here.

c. The constitutional problems alluded to by petitioner are insubstantial. Bayer applied for and received a valuable United States patent from the Patent Office.[6] Through its subsidiary, it has exer-

[6] Section 293 was adopted in 1952. Application for the Bayer patent (U.S. Patent No. 2,759,010) was made on July 28, 1953, and the patent was issued on August 14, 1956.

cised in the United States the monopoly rights conferred by that patent, and both corporations are alleged to have abused such patent rights by using the patent as a means of unlawfully restraining trade in the United States. There is no constitutional barrier to jurisdiction over Bayer in the United States. *International Shoe Co.* v. *Washington,* 326 U.S. 310.

Finally, Bayer suggests that to permit Section 293 to be utilized other than in patent cases, where federal court subject matter jurisdiction under Article III of the Constitution is clear, might raise problems under Article III "in cases where no independent basis of federal jurisdiction exists" (Pet. in No. 838 Misc., p. 20). However, Bayer concedes that "federal jurisdiction exists in this case by virtue of the Sherman Act" (*id.* at 19). Hence, the Article III problem alluded to by petitioner is not presented. There is no warrant for affording Section 293 less than its full scope here merely because it may not be applicable in other circumstances.

For the reasons stated, it is respectfully submitted that the appeal in No. 504 should be dismissed for want of jurisdiction and that certiorari should be denied in Nos. 505, 838 Misc. and 839 Misc.

ERWIN N. GRISWOLD,
Solicitor General.

OCTOBER 1968.

APPENDIX

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

(Civil No. 586–68. Filed: March 7, 1968)

UNITED STATES OF AMERICA, DEPARTMENT OF JUSTICE, WASHINGTON, D.C. 20530, PLAINTIFF

v.

FARBENFABRIKEN BAYER, A.G., DIREKTIONS ABTEILUNG, 22 c LEVERKUSEN BAYERWERK, FEDERAL REPUBLIC OF GERMANY

CHEMAGRO CORPORATION, HAWTHORN ROAD, KANSAS CITY, MISSOURI 64120, DEFENDANTS

COMPLAINT FOR DECLARATORY AND INJUNCTIVE RELIEF

The United States of America, plaintiff, brings this civil action against the defendants named in this complaint, and alleges:

I. JURISDICTION AND VENUE

1. This complaint is filed and this action is instituted under Section 4 of the Sherman Act (15 U.S.C. § 4), in order to prevent and restrain continuing violations by the defendants of Section 1 of the Sherman Act (15 U.S.C. § 1).

2. Farbenfabriken Bayer, A.G., a corporation organized and existing under the laws of the Federal Republic of Germany (hereafter referred to as "Bayer"), with its principal place of business at Leverkusen, West Germany, is the owner of U.S. Pat. No. 2,579,010 (hereafter referred to as "the Bayer patent"), which is involved in this proceeding. Bayer

has not designated in the Patent Office a person residing within the United States, on whom may be served process or notice of proceedings affecting such patent or rights thereunder. Pursuant to Section 293 of the Patent Code (35 U.S.C. § 293), this Court has jurisdiction to take any action respecting such patent or rights thereunder that it would have if the patentee were personally within the jurisdiction of the Court.

II. THE DEFENDANTS

3. Bayer is named a defendant.

4. Chemagro Corporation (hereafter referred to as "Chemagro"), a corporation oganized and existing under the laws of the State of New York, with its principal place of business at Kansas City, Missouri, is named a defendant. All of the voting stock in Chemagro is owned by Bayer Foreign Investments, Ltd., a wholly-owned subsidiary of Bayer, and a corporation organized and existing under the laws of the Dominion of Canada, with its principal office at Toronto, Canada.

III. DEFINITIONS

5. As used in this complaint, the term "diethyl" means the chemical compound O, O diethyl S–2 (ethylthio) ethyl phosphorodithioate, also known as "Di-Syston", a trademark used by Chemagro.

IV. NATURE OF TRADE AND COMMERCE

6. When diethyl is spread upon the soil near a plant, it is absorbed into the plant's system rendering its sap poisonous. Thus, diethyl kills fauna which bite or suck the treated plant, but it does not harm fauna which do not attack the plant. Because of the foregoing properties, diethyl is a valuable insecticidal product, the utilization of which is rapidly growing.

7. Bayer has granted Chemagro an exclusive license under the Bayer patent, which covers the product diethyl. The Bayer patent does not cover, or purport to cover, the use of diethyl or the manner in which it is packaged or formulated for use or sale.

8. Diethyl is manufactured in the United States only by Chemagro. Chemagro sells diethyl to firms which mix it with fertilizers, pesticides, and other products, or otherwise repackage and resell it, for use by farmers, growers, home gardeners, and others.

9. Chemagro manufactures diethyl at its plant at Kansas City, Missouri, and ships it to customers widely located throughout the United States. In 1966, Chemagro's sales in commerce of diethyl were approximately $3 million.

V. VIOLATIONS CHARGED

10. Beginning in or about 1964 and continuing thereafter up to and including the date of filing of this complaint, Chemagro has entered into and maintained more than 100 contracts with purchasers of diethyl, in unreasonable restraint of the aforesaid trade and commerce, in violation of Section 1 of the Sherman Act. Bayer combined with Chemagro and participated in said violation by granting an exclusive license on diethyl under the Bayer patent to its subsidiary, Chemagro, by deriving revenue from said contracts, through its subsidiary Chemagro; and by its control of Chemagro. Chemagro and Bayer have continued and will continue said unlawful contracts in effect, unless this Court grants the relief prayed for in this complaint.

11. The aforesaid contracts, described more fully below, each provide that Chemagro agrees to sell diethyl to the purchaser and to license the purchaser to use it, and that the purchaser agrees not to resell

diethyl except as further processed or formulated into particular products or mixtures, to be resold only for restricted purposes and to restricted classes of customer. Many of said contracts further require the purchaser to limit the territory in which diethyl-containing products will be sold, to the United States, and many agreements require the purchaser to place a label on each package of diethyl-containing products, purporting to restrain the use and resale of such products by subsequent purchasers.

12. Chemagro has entered into approximately 46 contracts in which it agrees to sell diethyl to the other party to the contract and to grant it a license under the Bayer patent with the following restrictions and limitations:

(a) The purchaser is to use diethyl only to formulate dry fertilizer particles impregnated with diethyl to a concentration not exceeding 2%;

(b) The purchaser is not to use the diethyl sold it for any other purpose, nor is it to sell diethyl, as such, to any other person;

(c) The purchaser is to sell the diethyl-impregnated fertilizer only for use by commercial growers, and is not to sell it for home and garden use;

(d) The purchaser is to place on the packages of diethyl-containing products which it sells, a label purporting to restrain the use of said products by the purchasers thereof, and specifically prohibiting them from using, or reformulating for intended use, the product in the home and garden field; and

(e) Some of these contracts further restrict the use and sale of the diethyl-containing products to the United States.

13. Chemagro has entered into approximately 22 contracts in which it agrees to sell diethyl to the other party to the contract and to grant it a license under the Bayer patent with the following restrictions and limitations:

(a) The purchaser is to use the diethyl it purchases from Chemagro only in treating cottonseeds;

(b) The purchaser is not to use the diethyl for any other purpose, nor sell diethyl, as such, to any other person;

(c) The purchaser is to sell the diethyl-impregnated cottonseed only for use by commercial growers; and

(d) Such cottonseed must be used or sold for use only in the United States.

14. Chemagro has entered into approximately 19 contracts in which it agrees to sell diethyl to the other party to the contract and to grant it a license under the Bayer patent with the following restrictions and limitations:

(a) The purchaser is to use diethyl only to formulate dry, granule particles impregnated with a soil fungicide and diethyl;

(b) The purchaser is not to use the diethyl sold it for any other purpose, nor is it to sell diethyl, as such, to any other person; and

(c) The purchaser is to sell such treated particles only for use by commercial growers.

15. Chemagro has entered into approximately 9 contracts in which it agrees to sell diethyl to the other party to the contract and to grant it a license under the Bayer patent with the following restrictions and limitations:

(a) The purchaser is to use diethyl only to formulate dry fertilizer particles impregnated

with diethyl to a concentration not to exceed 1%;

(b) The purchaser is not to use the diethyl sold it for any other purpose, nor is it to sell diethyl, as such, to any other person; and

(c) The purchaser is to sell the diethyl impregnated fertilizer only for use in the home and garden field.

16. Chemagro has entered into one contract substantially identical to that described in the preceding paragraph, with the exception that the dry fertilizer particles are to be impregnated with diethyl to a concentration not exceeding 2%. This contract further restricts the purchaser to selling the product for use only in the United States.

17. Chemagro has entered into approximately 3 contracts in which it agrees to sell diethyl to the other party to the contract and to grant it a license under the Bayer patent with the following restrictions and limitations:

(a) The purchaser is to use diethyl only to formulate a pesticide;

(b) The purchaser is not to use the diethyl sold it for any other purpose, nor is it to sell diethyl, as such, to any other person;

(c) The purchaser is to sell the pesticidal product only for home and garden use; and

(d) The purchaser is to sell the pesticidal product only for use in the United States.

18. Chemagro has entered into approximately 12 contracts in which it agrees to sell 2% diethyl-containing granules to the other party to the contract and to grant it a license under the Bayer patent only to repackage and resell such granules for home and garden use.

VI. EFFECTS

19. The effect of the aforesaid contracts is or may be:

(a) To limit and prevent competition among Chemagro's vendees, and between them and Chemagro, in the sale and distribution of diethyl-containing products;

(b) To prevent and restrain Chemagro's vendees and the customers of such vendees from using and re-selling diethyl and diethyl-containing products;

(c) Unreasonably to restrain trade and commerce in diethtyl and diethyl-containing products; and

(d) Otherwise to deprive the public of the benefits of free and open competition.

PRAYER

Wherefore, the plaintiff prays:

1. That, pursuant to Section 5 of the Sherman Act (15 U.S.C. § 5) the Court order summons to be issued to Chemagro, the defendant not found within the District of Columbia, commanding it to appear and answer the allegations contained in the complaint, and to abide by and perform such orders and decrees as this Court may make in the premises;

2. That the aforesaid contracts and combination or combinations be adjudged and decreed unlawful and in violation of Section 1 of the Sherman Act;

3. That defendants be perpetually enjoined from maintaining, by contract, understanding, or refusal to sell, any restriction on the use to which diethyl purchased from defendants, or from any licensee under the Bayer patent, may be put, and to whom,

for what purpose, or where diethyl-containing products may be sold or used;

4. That plaintiff have such other, further, general, and different relief as the nature of the case may require and the Court may deem proper in the premises;

5. That the plaintiff recover the costs of this suit.

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U.S. GOVERNMENT PRINTING OFFICE: 1969